

THE BOND BUYER

Michigan returns with \$1.2 billion deal to fund highways

By

[Christina Baker](#)

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Michigan priced \$1.2 billion of state trunk line fund bonds Tuesday.

The deal, part of the Rebuilding Michigan road program, will fund the reconstruction of several major highways and other infrastructure projects in the state. It hit the market nine months later than [the state initially planned](#).

The deal received an Aa2 rating from Moody's and S&P Global Ratings assigned its AA-plus rating. Both agencies assign stable outlooks, and both affirmed parity debt outstanding, about \$1.65 billion according to Moody's.



Contractors work at a Michigan Department of Transportation bridge construction site in 2022. The state is issuing \$1.18 billion of bonds this week for highway construction. **Bloomberg News**

Wells Fargo and JPMorgan were joint bookrunners for a 12-member underwriting team. PFM Financial Advisors is advising and Dickinson Wright PLLC is bond counsel.

The bonds are secured through a first lien on constitutionally restricted revenues from the State Trunk Line Fund, which is funded by proceeds of gas taxes and vehicle registration, and some revenue from marijuana taxes. The state established the trunk line fund in 1951.

Revenues pledged to pay debt service on the trunk line bonds have increased since 2018, except for a blip in pandemic year 2020, and have comfortably exceeded the Michigan Department of Transportation's policy to maintain 4 times annual debt service coverage, according to an online investor presentation about the deal.

According to the preliminary wire, the deal priced at yields between 3.35% for November 2024 maturities and 4.31% for 2049s.

Ladunni Okolo, a credit analyst for S&P, said the agency views these funds as stable sources of revenue.

"The gas tax represents about 50% of the revenue stream, and we've seen that rebound since the pandemic. Obviously, the pandemic and lockdown led to some decline in the revenues so we've seen that creep back up," Okolo said. "Just slightly above 40% is vehicle registration fees, so if you think about that compared to the gas tax we didn't see as much decline, so we've seen a lot of stability."

The stability of vehicle registration fees helps counteract the more volatile gas tax, which can be affected by other macroeconomic factors, Okolo said.

Michigan also requires four times coverage of all of its debt issuance, so Okolo said the downside on the debt is unlikely. The deal's rating is the highest it can get, Okolo added, unless Michigan's AA general obligation bond rating were to increase.

The Michigan Department of Transportation issued the first bonds for the Rebuilding Michigan program in 2020 to fund Democratic Gov. Gretchen Whitmer's infrastructure priorities — enacting her campaign pledge to "fix the damn roads."

Whitmer wanted to raise Michigan's gas tax, but the state's at the time Republican-led Legislature refused to do so. The Department of Transportation could spend funds without legislative approval, so it authorized the Rebuilding Michigan road program to issue \$3.5 billion of bonds.

In 2020, when Rebuilding Michigan made its [first \\$800 million issuance](#), Whitmer celebrated the state's ability to take advantage of low interest rates.

Last year, the state announced a plan to issue the remaining \$1.9 billion left in the authorization, but it was [delayed](#) due to inflation and rising interest rates. After this week's deal, there will be about \$700 million of bond authorization still available for the state to issue.

Michigan's 2023 budget increased funding to the DOT by \$600 million, and last year's bipartisan Building Michigan Together Plan directed an extra \$5 billion toward transportation, water and high-speed internet projects. The state can also compete for federal grants and expects to receive roughly \$7.9 billion in the coming years from 2021's federal infrastructure package.